

**ISHPEMING CITY SCHOOL DISTRICT  
ISHPEMING, MICHIGAN**

**FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Ishpeming City School District  
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District as of and for the year ended June 30, 2008, which collectively comprise the Ishpeming City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ishpeming City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2008, on our consideration of the Ishpeming City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education  
Ishpeming City School District  
Ishpeming, Michigan 49849

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ishpeming City School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basis financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

October 20, 2008

## **Ishpeming City School District**

### **Management's Discussion and Analysis (Unaudited)**

Our discussion and analysis of Ishpeming City School District financial performance provides an overview of the School District's financial activities for the year ended June 30, 2008. Please read it in conjunction with the financial statements, which begin on page 12.

#### **FINANCIAL HIGHLIGHTS**

- Net assets for Ishpeming City School District as a whole were reported at \$1,598,274. Net assets are comprised of 100% governmental activities.
- During the year, Ishpeming City School District expenses were \$9,444,789, while revenues from all sources totaled \$10,222,348, resulting in an increase in net assets of \$777,559.
- The general fund reported a net decrease of \$275,395. This is \$288,728 lower than the forecasted increase of \$13,333. This was a result of revenues being \$59,908 lower than forecasted and expenses and transfers out being \$228,820 higher than forecasted.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Ishpeming City School District financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the Ishpeming City School District's operations in more detail than the district-wide statements by providing information about the Ishpeming City School District's most significant funds – the General Fund and the Athletic Facilities Project Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Ishpeming City School District acts solely as an agent for the benefit of students and parents.

#### **Reporting the School District as a Whole – *District-wide Financial Statements***

Our analysis of the Ishpeming City School District as a whole begins on page 8. One of the most important questions asked about the Ishpeming City School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Ishpeming City School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## **Management's Discussion and Analysis (Unaudited) (Continued)**

These two statements report the Ishpeming City School District's net assets and changes in them. The Ishpeming City School District's net assets – the difference between assets and liabilities – are one way to measure the Ishpeming City School District's financial health, or financial position. Over time, increases or decreases in the Ishpeming City School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Ishpeming City School District's operating results. However, the Ishpeming City School District's goal is to provide services to our students, not to generate profits as private-sector companies do.

One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the Ishpeming City School District's capital assets, to assess the overall financial health of the Ishpeming City School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the Ishpeming City School District, which encompass all the Ishpeming City School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

### **Reporting the School District's Most Significant Funds – *Fund Financial Statements***

Our analysis of the Ishpeming City School District's major funds begins on page 10. The fund financial statements begin on page 14 and provide detailed information on the most significant funds – not the Ishpeming City School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the Ishpeming City School District's Board has established other funds to help it control and manage money for particular purposes. The Ishpeming City School District has only governmental funds which use the following accounting methods.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

### **The School District as Trustee – Reporting the School District's Fiduciary Responsibilities**

The Ishpeming City School District is the trustee, or fiduciary, for its student activity funds and auditorium fund. All of the Ishpeming City School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the Ishpeming City School District's other financial statements because the Ishpeming City School District cannot use these assets to finance its operations. The Ishpeming City School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**Management's Discussion and Analysis (Unaudited) (Continued)**

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets as of June 30, 2008:

**Table 1  
Net Assets**

	Governmental Activities – 2008	Governmental Activities – 2007
Current and other assets	\$4,454,095	\$3,775,911
Capital assets, net	5,220,559	5,365,293
Total Assets	<u>9,674,654</u>	<u>9,141,204</u>
Current liabilities	3,660,572	3,502,894
Long-term liabilities	4,415,808	4,817,595
Total Liabilities	<u>8,076,380</u>	<u>8,320,489</u>
Net Assets:		
Invested in capital assets, net of related debt	951,794	874,259
Restricted	1,666,928	832,344
Unrestricted	(1,020,448)	(885,888)
Total Net Assets	<u>\$1,598,274</u>	<u>\$820,715</u>

The School District's net assets were \$1,598,274 at June 30, 2008. Capital assets, net of related debt totaling \$951,794, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. There is a deficit balance in unrestricted net assets of (\$1,020,448).

The (\$1,020,448) deficit in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2008 and 2007.

**Table 2  
Changes in Net Assets**

	Governmental Activities – 2008	Governmental Activities – 2007
Revenues:		
Program revenues:		
Charges for services	\$275,947	\$286,499
Operating grants and contributions	1,470,994	1,698,940
Capital grants and contributions	978,336	13,235
General revenues:		
Property taxes	1,408,067	1,085,201
State sources not restricted to specific program	5,919,406	5,968,743
Investment earnings	65,289	90,792
Miscellaneous	104,309	68,545
Total Revenues	<u>\$10,222,348</u>	<u>\$9,211,955</u>



**Management's Discussion and Analysis (Unaudited) (Continued)**

**Table 2 (Continued)  
Changes in Net Assets**

	Governmental Activities – 2008	Governmental Activities – 2007
Program Expenses:		
Instruction	\$4,910,555	\$5,613,978
Supporting services	2,985,082	2,834,129
Community services	75,874	56,101
Payments to other governments	282,379	348,645
School lunch activities	295,915	275,406
Athletic activities	211,861	187,457
Depreciation – unallocated	391,224	422,448
Interest on long-term debt	291,899	293,345
Total Expenses	<u>9,444,789</u>	<u>10,031,509</u>
Increase (decrease) in net assets	777,559	(819,554)
Net assets, beginning	820,715	1,640,269
Net Assets, Ending	<u>\$1,598,274</u>	<u>\$820,715</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$9,444,789. Certain activities were partially funded from those who benefited from the programs \$275,947 or by other governments and organizations that subsidized certain programs with grants and categoricals \$2,449,330. We paid for the remaining “public benefit” portion of our governmental activities with \$1,443,690 in taxes, \$5,919,406 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets for the year of \$777,559

Key reasons for the change in net assets were as follows:

- Net increase in governmental fund balances of \$533,506
- Depreciation charged to expense of \$(391,224)
- Purchase of capital assets in the amount of \$250,248
- Principal payment on debt in the amount of \$218,511
- Other miscellaneous transactions of \$166,518

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

**Table 3  
Governmental Activities**

	Total Cost of Services	Net Cost of Services
Instruction	\$4,910,555	\$3,556,717
Supporting services	2,985,082	1,958,811
Payments to other governments	282,379	276,101
School lunch activities	295,915	27,317
Athletic activities	211,861	141,569
Totals	<u>\$8,685,792</u>	<u>\$5,960,515</u>

## Management's Discussion and Analysis (Unaudited) (Continued)

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

### **The School District's Funds**

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,054,664, an increase of \$533,506 from the beginning of the year.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

At June 30, 2008, the School District had \$31,178,549 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

	<b>Table 4</b>	
	<b>Capital Assets at Year-End</b>	
	Governmental Activities – 2008	Governmental Activities – 2007
Land	\$14,401	\$14,401
Construction in progress	879,516	708,466
Land improvements	397,965	378,665
Buildings	27,176,296	27,140,331
Machinery and equipment	2,300,753	2,276,820
Vehicles	659,866	659,866
	31,428,797	31,178,549
Less accumulated depreciation	(26,264,807)	(25,873,583)
Totals	<u>\$5,163,990</u>	<u>\$5,304,966</u>

This year's additions were \$250,248 included building renovations and construction of the Athletic Facilities Complex. The Sinking Fund levy was used for some these additions.

## Management's Discussion and Analysis (Unaudited) (Continued)

### **Debt**

At the end of this year, the School District had \$4,321,359 in bonds and notes outstanding as depicted in Table 5 below.

Table 5  
Outstanding Debt at Year End

	Governmental Activities – 2008	Governmental Activities – 2007
General obligation bonds	\$4,185,000	\$4,385,000
Durant Debt	109,163	109,163
Vehicle and copier notes	27,196	45,707
Totals	<u>\$4,321,359</u>	<u>\$4,539,870</u>

There were no major new additions to debt this year.

### **Economic Factors and Next Year's Budgets**

Our elected officials and administration consider many factors when setting the School District's fiscal year 2008 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2008 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2007. Approximately 75 percent to 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

### **Contacting the School District's Financial Management**

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ishpeming City School District Administration, 319 E. Division Street, Ishpeming, Michigan 49849.

**Ishpeming City School District**  
**Statement of Net Assets**  
**June 30, 2008**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,883,518
Investments	1,008,701
Receivables:	
Accounts receivable	18,394
Due from other governmental units	1,537,688
Inventories	4,544
Prepaid expenses	1,250
	<hr/>
<b>TOTAL CURRENT ASSETS</b>	4,454,095
	<hr/>
<b>Noncurrent assets:</b>	
Unamortized bond issue costs	56,569
Capital assets	31,428,797
Less accumulated depreciation	(26,264,807)
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<b>TOTAL NONCURRENT ASSETS</b>	5,220,559
	<hr/>
<b>TOTAL ASSETS</b>	9,674,654
	<hr/>
<b>LIABILITIES:</b>	
<b>Current liabilities:</b>	
Accounts payable	112,653
Accrued payroll and other liabilities	500,716
Due to other governmental units	138,185
Deferred revenue	37,454
State aid notes payable	2,639,000
Current portion of bonds payable	220,289
Current portion of notes payable	12,275
	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	3,660,572
	<hr/>
<b>Noncurrent liabilities:</b>	
Noncurrent portion of employee benefit obligations	361,396
Noncurrent portion of bonds payable	4,073,874
Less deferred loss on refunding bonds	(20,343)
Less unamortized bond discount	(14,040)
Noncurrent portion of notes payable	14,921
	<hr/>
<b>TOTAL NONCURRENT LIABILITIES</b>	4,415,808
	<hr/>
<b>TOTAL LIABILITIES</b>	8,076,380
	<hr/>
<b>NET ASSETS:</b>	
Invested in capital assets net of related debt	951,794
Restricted:	
Debt Service	68,681
Capital Outlay	416,643
Scholarships	1,181,604
Unrestricted	(1,020,448)
	<hr/>
<b>TOTAL NET ASSETS</b>	\$ 1,598,274
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See Notes to Financial Statements.

**Ishpeming City School District**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

Function / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction	\$ 4,910,555	\$ 102,583	\$ 1,251,255	\$ -	\$ (3,556,717)
Supporting services	2,985,082	-	47,935	978,336	(1,958,811)
Community services	75,874	-	-	-	(75,874)
Payments to other governments	282,379	-	6,278	-	(276,101)
School lunch activities	295,915	108,856	159,742	-	(27,317)
Athletic activities	211,861	64,508	5,784	-	(141,569)
Interest on retirement of debt	291,899	-	-	-	(291,899)
Depreciation- unallocated	391,224	-	-	-	(391,224)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>9,444,789</b>	<b>275,947</b>	<b>1,470,994</b>	<b>978,336</b>	<b>(6,719,512)</b>
<b>General revenues:</b>					
Taxes					
Property taxes, levied for general purposes					
					902,435
Property taxes, levied for debt services					
					331,864
Property taxes, levied for building and site fund					
					173,768
State Aid not restricted to specific purposes					
					5,919,406
Interest and investment earnings					
					65,289
Miscellaneous					
					104,309
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>7,497,071</b>
<b>CHANGES IN NET ASSETS</b>					<b>777,559</b>
Net Assets , July 1					820,715
<b>NET ASSETS, JUNE 30</b>					<b>\$ 1,598,274</b>

See Notes to Financial Statements.

**Ishpeming City School District  
Governmental Funds  
Balance Sheet  
June 30, 2008**

	General Fund	Special Revenue Fund: Scholarship Fund	Other Non-major Governmental Funds	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,114,630	\$ 188,144	\$ 580,744	\$ 1,883,518
Investments	-	990,679	18,022	1,008,701
Receivables:				
Accounts receivable	14,350	-	4,044	18,394
Due from other governmental units	1,535,971	-	1,717	1,537,688
Due from other funds	385,727	2,781	246,888	635,396
Inventories	-	-	4,544	4,544
Prepaid expenditures	1,250	-	-	1,250
<b>TOTAL ASSETS</b>	<u>\$ 3,051,928</u>	<u>\$ 1,181,604</u>	<u>\$ 855,959</u>	<u>\$ 5,089,491</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 106,105	\$ -	\$ 6,548	\$ 112,653
Accrued liabilities	472,139	-	-	472,139
Due to other governmental units	138,185	-	-	138,185
Due to other funds	246,097	-	389,299	635,396
Deferred revenue	37,454	-	-	37,454
State aid notes payable	2,639,000	-	-	2,639,000
<b>TOTAL LIABILITIES</b>	<u>3,638,980</u>	<u>-</u>	<u>395,847</u>	<u>4,034,827</u>
<b>FUND BALANCES:</b>				
Reserved	121,364	1,181,604	485,324	1,788,292
Unreserved, reported in:				
General Fund	(708,416)	-	-	(708,416)
Special Revenue Funds	-	-	(25,212)	(25,212)
<b>TOTAL FUND BALANCES</b>	<u>(587,052)</u>	<u>1,181,604</u>	<u>460,112</u>	<u>1,054,664</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,051,928</u>	<u>\$ 1,181,604</u>	<u>\$ 855,959</u>	<u>\$ 5,089,491</u>

See Notes to Financial Statements.

**Ishpeming City School District  
Governmental Funds  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2008**

<b>Total Fund Balances for Governmental Funds</b>	<b>\$</b>	<b>1,054,664</b>
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*Amounts reported for governmental activities in the statement  
of net assets are different because:*

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds.

Cost of capital assets	31,428,797	
Accumulated depreciation	<u>(26,264,807)</u>	5,163,990

Unamortized bond issue costs are not financial resources and therefore are not reported in the funds.	56,569
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Long-term liabilities are not due and payable in the current period and are  
not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable - current portion	220,289	
Bonds payable - long-term portion	4,073,874	
Deferred loss on refunding bonds	(20,343)	
Unamortized bond discount	(14,040)	
Notes payable - current portion	12,275	
Notes payable - long-term portion	14,921	
Accrued interest	28,577	
Employee benefit obligations	<u>361,396</u>	(4,676,949)

<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>1,598,274</u></b>
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**Ishpeming City School District**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2008**

	General Fund	Special Revenue Fund: Scholarship Fund	Other Non-major Governmental Funds	Total
<b>REVENUES:</b>				
Local sources	\$ 1,289,135	\$ 1,001,634	\$ 704,399	\$ 2,995,168
State sources	6,682,311	-	15,675	6,697,986
Federal sources	385,127	-	144,067	529,194
<b>TOTAL REVENUES</b>	<b>8,356,573</b>	<b>1,001,634</b>	<b>864,141</b>	<b>10,222,348</b>
<b>EXPENDITURES:</b>				
Current:				
Instruction	5,078,443	-	-	5,078,443
Supporting services	2,904,854	23,788	505,506	3,434,148
Community services	75,874	-	-	75,874
Payments to other governments	282,379	-	-	282,379
Debt Service:				
Principal	18,511	-	200,000	218,511
Interest	109,241	-	177,703	286,944
Facilities acquisition	21,199	-	291,344	312,543
<b>TOTAL EXPENDITURES</b>	<b>8,490,501</b>	<b>23,788</b>	<b>1,174,553</b>	<b>9,688,842</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(133,928)</b>	<b>977,846</b>	<b>(310,412)</b>	<b>533,506</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	141,467	141,467
Transfers out	(141,467)	-	-	(141,467)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(141,467)</b>	<b>-</b>	<b>141,467</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(275,395)</b>	<b>977,846</b>	<b>(168,945)</b>	<b>533,506</b>
Fund Balance, July 1	(311,657)	203,758	629,057	521,158
<b>FUND BALANCE, JUNE 30</b>	<b>\$ (587,052)</b>	<b>\$ 1,181,604</b>	<b>\$ 460,112</b>	<b>\$ 1,054,664</b>

See Notes to Financial Statements.



**Ishpeming City School District  
Governmental Funds  
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balance to the Statement of Activities  
For the Year Ended June 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 533,506**

*Amounts reported for governmental activities in the statement  
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	391,224	
Capital outlays	<u>(250,248)</u>	(140,976)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 218,511

Deferred loss on refunding bonds is reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities. (1,471)

Unamortized bond issue costs are reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities. (3,757)

Premium and discounts are recognized in the financial statements as other financing sources or uses but, they are amortized over the term of the bonds in the government-wide financial statements. (780)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,053

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 171,473

<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>777,559</u></b>
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**Ishpeming City School District  
Fiduciary Funds  
Statement of Fiduciary Net Assets  
June 30, 2008**

	<b>Agency Funds</b>	<b>Private-Purpose Trust Funds</b>
	<b>Student Activity Fund</b>	<b>Auditorium Fund</b>
<b>ASSETS:</b>		
Cash and equivalents	\$ 81,529	\$ 6,270
Accounts receivable	6,548	-
<b>TOTAL ASSETS</b>	<b>\$ 88,077</b>	<b>\$ 6,270</b>
<b>LIABILITIES:</b>		
Accounts payable	\$ 4,044	\$ 5,911
Due to groups, organizations and activities	84,033	-
<b>TOTAL LIABILITIES</b>	<b>\$ 88,077</b>	<b>5,911</b>
<b>NET ASSETS:</b>		
Held in trust for individuals, organizations, and other governments		359
<b>TOTAL NET ASSETS</b>		<b>\$ 359</b>

See Notes to Financial Statements.

**Ishpeming City School District  
Fiduciary Funds  
Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2008**

	<b>Private-Purpose Trust Fund</b>
	<b>Auditorium Fund</b>
<b>ADDITIONS:</b>	
Contributions:	
Gifts, bequests and endowments	\$ 5,678
	<hr/>
Total Contributions	5,678
	<hr/>
Investment Income:	
Interest and dividends	23
	<hr/>
Net Investment Income (Loss)	23
	<hr/>
<b>TOTAL ADDITIONS (DEDUCTIONS)</b>	5,701
	<hr/>
<b>DEDUCTIONS:</b>	
Payments in accordance with trust agreements	2,285
	<hr/>
<b>TOTAL DEDUCTIONS</b>	2,285
	<hr/>
<b>CHANGE IN NET ASSETS</b>	3,416
	<hr/>
Net assets, beginning of year	(3,057)
	<hr/>
<b>NET ASSETS, END OF YEAR</b>	\$ 359
	<hr/> <hr/>

See Notes to Financial Statements.

# ISHPEMING CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Ishpeming City School District was organized in 1869. The School District operates under a Board-Superintendent form of government. The accounting policies of the Ishpeming City School District conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

#### Financial Reporting Entity

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the Ishpeming City School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

### **BASIS OF PRESENTATION**

#### *District-Wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

#### *Fund Financial Statements:*

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The available resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major fund categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

The School District reports the General Fund and the Athletic Facilities Project Fund as its only major governmental funds in accordance with the above criteria. The funds of the School District are described below:

### Governmental Fund Types

*General Fund* – The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Funds* – Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Service, Athletics, and Scholarship Funds.

*Debt Retirement Funds* – Debt Retirement Funds are used to record tax, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

*Capital Projects Funds* – Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

### Fiduciary Fund Types

*Trust and Agency Fund* – The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

*Auditorium Fund* – The Auditorium Fund is a private-purpose trust fund used to account for assets held by the School District in a trustee capacity for operations of the Auditorium.

## **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

### **Measurement Focus**

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (a) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a.** All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

### **Basis of Accounting**

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

### Cash and Equivalents

The District considers cash and cash equivalents to be cash on hand, demand deposits and certificates of deposit.

### Investments

Investments are carried at market value.

### Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

### Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

### Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

### Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

### Long-Term Liabilities

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

### Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

### Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

### Equity Classification

#### *District-Wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets – Consists of net assets with constraints placed on the use either

- b. by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

#### *Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

### Revenues

#### *District-Wide Statements*

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

### *Fund Statements*

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

### Expenses/Expenditures

#### *District-Wide Statements*

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

### *Fund Statements*

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

## **OTHER SIGNIFICANT ACCOUNTING POLICIES**

### Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is approved by the Board of Education.
4. Budgets for all governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as approved and amended by the Board of Education.

### Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Encumbrances

Appropriations in governmental funds are encumbered upon the issuance of purchase orders, contracts or other forms of legal commitments. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities in the year the commitment is made.



**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes.

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on August 1 and payable by September 14. The City of Ishpeming bills and collects the property taxes for the School District.

The School District voters authorized the School District to levy the following mileages for the 2007-2008 school year:

On nonresidential property, a total of 18 mills was approved for general operating expenditures on properties with a total taxable value of \$31,106,963.

On all residential and commercial property, 2.0 mills was levied out of a total of 4.486 mills approved for a Building Sinking Fund on properties with a total taxable value of \$92,413,509.

On all residential and commercial property, a total of 4.05 mills was approved for the purpose of retiring long-term obligations on properties with a total taxable value of \$92,413,509.

**NOTE B – DEPOSITS AND INVESTMENTS:**Cash Equivalents

As of June 30, 2008, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$1,883,518	\$87,799	\$1,971,317
Investments	1,008,701	-	1,008,701
	<u>\$2,892,219</u>	<u>\$87,799</u>	<u>\$2,980,018</u>

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. The carrying amounts of the School's deposits with financial institutions were \$1,883,518 and the bank balance was \$2,101,090. The bank balance is categorized as follows.

Amounts insured by FDIC	\$185,886
Amount uncollateralized and uninsured	1,915,204
Total	<u>\$2,101,090</u>

**NOTE B – DEPOSITS AND INVESTMENTS (Continued):**Investments

As of June 30, 2008, the District had the following investments.

Investment Type	Fair Value	Investment in Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
Michigan Liquid Asset Fund – Mutual Funds	\$18,022	\$18,022	\$ -	\$ -	\$ -
General Motors – Corporate fixed income	12,343	-	-	12,343	-
Totals	30,365	11,052	-	19,284	\$ -
Investments with no maturities:					
Peninsula Financial Corporation – Stock	978,336				
	<u>\$1,008,701</u>	<u>\$11,052</u>	<u>\$-</u>	<u>\$19,284</u>	<u>\$-</u>

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices. The District's investment in General Motors Corporate Fixed Income was rated BAA2 by Moody's Investors Service and BB by Standard & Poor's. Ratings are not required for the District's investment in Michigan Liquid Asset Fund-Mutual Funds. The District's investments are in accordance with statutory authority.

The estate of Patricia Potter has directed \$978,336 in Peninsula Financial Corporation stock to the District for creation of the Pat Potter Fund for scholarships for Ishpeming High School seniors. Public Act 20 of 1943 as amended governs the purchase of investments and since such a donation of stock was not purchased by the District, the District is not required to divest itself of the stock. If the District were to sell the stock and reinvest the proceeds, it must be invested in accordance with the requirements of the Act.

*Concentration of Credit Risk*

The District places no limit on the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in the General Motors Corporate Fixed Income. These investments are 64% of the District's total investments.

**NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:**

Amounts due from other governmental units consist of various revenues due from federal and state sources for the operation of special programs and grant projects.

**NOTE D – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):**

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund receivables and payables are as follows:

		Due From Other Funds					
Due To Other Funds		General Fund	Scholarship Fund	Athletic Facilities Project Fund	Debt Service Fund	School Lunch Fund	Total Due To Other Funds
	General Fund	\$-	\$2,781	\$-	\$19,428	\$223,888	\$246,097
	School Lunch Fund	307,644	-	-	-	-	307,644
	Athletic Fund	26,991	-	-	-	-	26,991
	Building Sinking Fund	27,107	-	-	-	-	27,107
	Debt Service Fund	23,985	-	3,572	-	-	27,557
	Total Due From Other Funds	\$385,727	\$2,781	\$3,572	\$19,428	\$223,888	\$635,396

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

		Transfer Out To Other Funds	
Transfers In To Other Funds		General Fund	Total Transfers In From Other Funds
	Athletic Fund	\$141,467	\$141,467
	Total Transfers Out To Other Funds	\$141,467	\$141,467

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE E – CAPITAL ASSETS:**

Capital asset activity of the School District's governmental activities was as follows:

	Balance 6/30/07	Additions/ Adjustments	Deductions	Balance 6/30/08
Capital assets not being depreciated:				
Land	\$14,401	\$-	\$-	\$14,401
Construction in progress	708,466	171,050	-	879,516
Capital assets being depreciated:				
Land improvement	378,665	19,300	-	397,965
Buildings and additions	27,140,331	35,965	-	27,170,246
Machinery and equipment	2,276,820	23,933	-	2,300,753
Vehicles/buses	659,866	-	-	659,866
Total Capital Assets	31,178,549	250,248	-	31,428,797

**NOTE E – CAPITAL ASSETS (Continued):**

	Balance 6/30/07	Additions/ Adjustments	Deductions	Balance 6/30/08
Less accumulated depreciation:				
Land improvement	\$112,858	\$18,258	\$-	\$131,116
Buildings and additions	22,931,618	335,097	-	23,266,715
Machinery and equipment	2,229,825	18,589	-	2,248,414
Vehicles/buses	599,282	19,280	-	618,562
Total Accumulated Depreciation	25,873,583	391,224	-	26,264,807
CAPITAL ASSETS, NET	<u>\$5,304,966</u>	<u>\$(140,976)</u>	<u>\$-</u>	<u>\$5,163,990</u>

Depreciation expense charged to governmental activities was \$391,224.

**NOTE F – ACCRUED EMPLOYEE BENEFITS:**

Upon severing employment with the District, an employee has the option of selecting one of the following as severance pay:

1. Unused sick leave to be paid at \$35.00 per day up to a maximum of \$4,800 per employee.
2. An employee who has been employed for ten years or more shall be paid one week of current salary plus one day of current salary for each year of employment of the District in excess of ten years to a maximum of \$1,500.

As of June 30, 2008, the accrued employee benefits reported in the Statement of Net Assets is \$361,396. This amount includes \$210,000 balance in the Voluntary Special Retirement Program (VSRP) payment offered for teachers who elected into the program by August 1, 2007 and \$21,326 for the teachers who made their election in the 2004-2005 fiscal year. The remainder is attributable to teacher's accrued sick leave.

**NOTE G – RESERVED FUND EQUITY:**

The School District reserves fund equities for the following funds:

General Fund – The resources of the General Fund have been accumulated for the following specific purposes:

Energy Conservation Funds	\$67,670
1.33 Mill Funds	53,694
	<u>\$121,364</u>

Special Revenue Funds – The resources of the Scholarship Fund have been accumulated for the specific purpose of granting scholarship to graduating students. The fund equities of \$1,181,604 are reserved for these purposes.

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities of \$68,681 are reserved for this purpose.

Capital Projects Funds – The resources of the Capital Projects Funds have been accumulated for the specific purpose of acquiring fixed assets. The fund equities of \$416,643 are reserved for these purposes.

**NOTE H – LONG-TERM DEBT:**

The following is a summary of the long-term debt activity for the year ending June 30, 2008:

	Balance 7/1/07	Additions	Deductions	Balance 6/30/08	Due Within One Year
2005 Refunding Bonds	\$3,345,000	\$ -	\$160,000	\$3,185,000	\$170,000
Durant Bonds	109,163	-	-	109,163	10,289
2006 Serial Bonds	1,040,000	-	40,000	1,000,000	40,000
Vehicle Loans Payable	39,861	-	12,665	27,196	12,275
IT Loans Payable	5,846	-	5,846	-	-
Employee Benefits Payable	532,869	-	171,473	361,396	-
<b>TOTAL</b>	<b>\$5,072,739</b>	<b>\$-</b>	<b>\$389,984</b>	<b>\$4,682,755</b>	<b>\$232,564</b>

Long-term debt at June 30, 2008 consists of the following:

IT Loan Payable – The IT Loan Payable (\$33,700), dated October 6, 2005, matures monthly on the 6<sup>th</sup> of each month with an interest rate of 4.85% per annum. The loan was paid off during fiscal year 2007/2008.

**INSTALLMENT NOTES FOR VEHICLE AND BUS PURCHASES****June 30, 2008**

Date	Original Amount	Interest Rate	Monthly Payment	Principal	Interest	Total
08/10/05	\$59,507	3.79%	\$1,091.17	\$27,196	\$1,175	\$28,371
				<u>\$27,196</u>	<u>\$1,175</u>	<u>\$28,371</u>

Bus note payable originally issued for \$59,507 and dated August 12, 2005 matures monthly as scheduled above on the 20<sup>th</sup> of every month through August 20, 2010 bearing an interest rate of 3.79% per annum.

**2005 Refunding Bonds****June 30, 2008**

School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2008-2009	\$64,977	\$64,978	\$170,000	\$299,955
2009-2010	62,002	62,003	180,000	304,005
2010-2011	58,852	58,853	190,000	307,705
2011-2012	55,527	55,528	195,000	306,055
2012-2013	51,627	51,628	200,000	303,255
2013-2018	192,436	192,441	1,150,000	1,534,877
2018-2022	59,934	59,936	1,100,000	1,219,870
<b>Totals</b>	<b>\$545,355</b>	<b>\$545,367</b>	<b>\$3,185,000</b>	<b>\$4,275,722</b>

On April 28, 2005, the District issued \$3,365,000 in General Obligation Bonds with an average interest rate of 4.2% to advance refund \$3,340,000 of outstanding 1997 Serial Bonds with an average interest rate of 5.1%. The net proceeds of \$3,307,500 (after payment of \$57,500 in underwriting fees, insurance, and other issuance costs) plus an additional \$197,000 of 1997 series Debt Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series bonds. As a result, the 1997 series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$25,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 17 years by \$440,107 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$337,265.

**NOTE H – LONG-TERM DEBT (Continued):****School Improvement Bonds (Durant)****Series 1998****June 30, 2008**

School Year	Interest	Principal	Total
2008-2009	\$2,694	\$10,289	\$12,983
2009-2010	2,204	10,778	12,982
2011-2012	1,691	11,292	12,983
2012-2013	22,816	64,412	87,228
2013-2014	590	12,392	12,982
	<u>\$29,995</u>	<u>\$109,163</u>	<u>\$139,158</u>

The School Improvement Bonds, Series 1998 (\$184,877) dated November 24, 1998 mature annually on May 15 with interest at a rate of 4.75% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an appropriation from the State of Michigan. If the legislature fails to appropriate the funds, the School District is under no obligation for payment.

**2006 General Obligation****School Building and Site Bonds****June 30, 2008**

School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2008-2009	\$20,754	\$20,754	\$40,000	\$81,508
2009-2010	19,954	19,954	40,000	79,908
2010-2011	19,154	19,154	40,000	78,308
2011-2012	18,354	18,354	40,000	76,708
2012-2013	17,554	17,554	45,000	80,108
2013-2018	73,919	73,919	245,000	392,838
2018-2023	45,999	45,999	315,000	406,998
2023-2026	10,212	10,212	235,000	255,424
Totals	<u>\$225,900</u>	<u>\$225,900</u>	<u>\$1,000,000</u>	<u>\$1,451,800</u>

General Obligation School Building and Site Serial Bonds originally issued for \$1,040,000 and dated June 28, 2006 mature annually on May 1, 2008 through May 1, 2026 and bear interest at a rate of 4.0% to 4.3% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

As of June 30, 2008 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

	Principal	Interest	Total
2008-2009	\$232,564	\$174,976	\$407,540
2009-2010	243,526	166,463	409,989
2010-2011	243,465	157,714	401,179
2011-2012	299,412	170,579	469,991
2012-2013	257,392	138,953	396,345
2013-2018	1,395,000	532,715	1,927,715
2018-2023	1,415,000	211,868	1,626,868
2023-2026	235,000	20,424	255,424
	<u>4,321,359</u>	<u>1,573,692</u>	<u>5,895,051</u>
Employer Benefits Payable	361,396	-	361,396
TOTAL	<u>\$4,682,755</u>	<u>\$1,573,692</u>	<u>\$6,256,447</u>

**NOTE I – SHORT-TERM DEBT:**

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of changes in short-term debt for the year ended June 30, 2008, is as follows:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
State Anticipation Note	<u>\$2,245,000</u>	<u>\$2,639,000</u>	<u>\$2,245,000</u>	<u>\$2,639,000</u>

**NOTE J – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:**

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in February 2008 and October of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2007 – August 2008.

**NOTE K – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

**NOTE K – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):**

The District was required by state statute to contribute 17.74% of covered compensation to the Plan through September 30, 2007 and 16.72% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2008 was \$879,832 which consisted of \$753,893 from the District and \$125,939 from employees electing the MIP option. These represent approximately 15% and 3% of covered payroll, respectively. The District's aggregate contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were \$879,832, \$920,030 and \$798,512, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2008 was approximately \$4,900,000. The District's total payroll was approximately \$4,900,000.

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48929-8103.

**NOTE L – CONTINGENT LIABILITIES:**Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE M – ECONOMIC DEPENDENCY:**

The School District receives approximately 85 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of the Ishpeming City School District.

**NOTE N – SINKING FUNDS:**

The Building Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For (this) these funds, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

**NOTE O – FUND BALANCE DEFICIT:**

As of June 30, 2008 the General Fund and School Lunch Fund have a fund balance deficit as defined in Section 102(1) of the State School Aid Act. The District is required to notify the Michigan Department of Education, State Aid and School Finance office for proper notification and disposition thereof.



**NOTE P – CONSTRUCTION IN PROGRESS:**

As of June 30, 2008 construction contracts totaling \$884,330 were entered into for the athletic track and field improvements of which \$879,516 had been completed.

**NOTE Q – SINGLE AUDIT:**

The District's audited financial statements report a total of \$529,165 in federal expenditures. As the amount is more than the single audit threshold of \$500,000, the District is therefore required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2008.

REQUIRED FINANCIAL  
INFORMATION

**Ishpeming City School District  
General Fund  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
<b>REVENUES:</b>					
Local Sources	\$ 1,293,450	\$ 1,289,975	\$ 1,289,135	\$ (3,475)	\$ (840)
State sources	6,770,026	6,770,026	6,682,311	-	(87,715)
Federal Sources	363,480	356,480	385,127	(7,000)	28,647
<b>TOTAL REVENUES</b>	<b>8,426,956</b>	<b>8,416,481</b>	<b>8,356,573</b>	<b>(10,475)</b>	<b>(59,908)</b>
<b>EXPENDITURES:</b>					
<b>Instruction:</b>					
Basic programs	3,640,367	3,561,792	3,674,788	78,575	(112,996)
Added needs	1,522,195	1,524,575	1,402,701	(2,380)	121,874
Adult continuing education	-	-	954	-	(954)
<b>Total Instruction</b>	<b>5,162,562</b>	<b>5,086,367</b>	<b>5,078,443</b>	<b>76,195</b>	<b>7,924</b>
<b>Supporting Services:</b>					
Student services	146,716	144,738	168,264	1,978	(23,526)
Instructional staff	107,931	115,404	126,122	(7,473)	(10,718)
General administration	269,428	276,532	288,316	(7,104)	(11,784)
School administration	703,382	551,855	565,809	151,527	(13,954)
Business services	98,764	104,511	118,306	(5,747)	(13,795)
Operation and maintenance of plant	1,029,413	1,073,027	1,081,067	(43,614)	(8,040)
Pupil transportation	248,600	262,370	237,388	(13,770)	24,982
Central services	-	-	125,221	-	(125,221)
Other supporting services	562,831	584,748	194,361	(21,917)	390,387
<b>Total Supporting Services</b>	<b>3,167,065</b>	<b>3,113,185</b>	<b>2,904,854</b>	<b>53,880</b>	<b>208,331</b>
<b>Community Services:</b>					
Community recreation	-	-	16,271	-	(16,271)
Childcare center	45,590	57,916	59,603	(12,326)	(1,687)
<b>Total Community Services</b>	<b>45,590</b>	<b>57,916</b>	<b>75,874</b>	<b>(12,326)</b>	<b>(17,958)</b>
<b>Payments to Other governments:</b>					
Payments to other schools	-	143,680	268,348	(143,680)	(124,668)
Payments to other governmental entities	-	-	14,031	-	(14,031)
<b>Total Payments to Other Governments</b>	<b>-</b>	<b>143,680</b>	<b>282,379</b>	<b>(143,680)</b>	<b>(138,699)</b>
<b>Debt Service:</b>					
Principal	15,000	-	18,511	15,000	(18,511)
Interest	-	-	109,241	-	(109,241)
<b>Total Payments to Other Governments</b>	<b>15,000</b>	<b>-</b>	<b>127,752</b>	<b>15,000</b>	<b>(127,752)</b>
<b>Facilities Acquisition:</b>					
Capital outlay	-	-	21,199	-	(21,199)
<b>Total Facilities Acquisition</b>	<b>-</b>	<b>-</b>	<b>21,199</b>	<b>-</b>	<b>(21,199)</b>
<b>TOTAL EXPENDITURES</b>	<b>8,390,217</b>	<b>8,401,148</b>	<b>8,490,501</b>	<b>(10,931)</b>	<b>(89,353)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>36,739</b>	<b>15,333</b>	<b>(133,928)</b>	<b>(21,406)</b>	<b>(149,261)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers (out)	(2,000)	(2,000)	(141,467)	-	(139,467)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(141,467)</b>	<b>-</b>	<b>(139,467)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>34,739</b>	<b>13,333</b>	<b>(275,395)</b>	<b>(21,406)</b>	<b>(288,728)</b>
Fund Balance, July 1	(311,657)	(311,657)	(311,657)	-	-
<b>FUND BALANCE, JUNE 30</b>	<b>\$ (276,918)</b>	<b>\$ (298,324)</b>	<b>\$ (587,052)</b>	<b>\$ (21,406)</b>	<b>\$ (288,728)</b>

**Ishpeming City School District  
Special Revenue Fund: Scholarship Fund  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
<b>REVENUES:</b>					
Local Sources	\$ 15,000	\$ 994,586	\$ 1,001,634	\$ 979,586	\$ 7,048
<b>TOTAL REVENUES</b>	15,000	994,586	1,001,634	979,586	7,048
<b>EXPENDITURES:</b>					
Supporting Services:					
Agency Activities:					
Scholarships granted	14,020	22,000	23,788	(7,980)	(1,788)
<b>Total Supporting Services</b>	14,020	22,000	23,788	(7,980)	(1,788)
<b>TOTAL EXPENDITURES</b>	14,020	22,000	23,788	(7,980)	(1,788)
<b>NET CHANGE IN FUND BALANCE</b>	980	972,586	977,846	987,566	8,836
Fund Balance, July 1	203,758	203,758	203,758	-	-
<b>FUND BALANCE, JUNE 30</b>	\$ 204,738	\$ 1,176,344	\$ 1,181,604	\$ 987,566	\$ 8,836

SUPPLEMENTAL FINANCIAL  
INFORMATION

**Ishpeming City School District  
Non-major Governmental Funds  
Combining Balance Sheet  
June 30, 2008**

	Special Revenue Funds	Capital Projects Funds	Debt Service Fund	Total
<b>ASSETS:</b>				
Cash and equivalents	\$ 81,778	\$ 422,156	\$ 76,810	\$ 580,744
Investments	-	18,022	-	18,022
Accounts receivable	4,044	-	-	4,044
Due from other funds	223,888	3,572	19,428	246,888
Due from other governmental units	1,717	-	-	1,717
Inventory - food and supplies	4,544	-	-	4,544
<b>TOTAL ASSETS</b>	<u>315,971</u>	<u>443,750</u>	<u>96,238</u>	<u>855,959</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	6,548	-	-	6,548
Due to other funds	334,635	27,107	27,557	389,299
<b>TOTAL LIABILITIES</b>	<u>341,183</u>	<u>27,107</u>	<u>27,557</u>	<u>395,847</u>
<b>FUND BALANCES:</b>				
Reserved for:				
Debt service	-	-	68,681	68,681
Capital outlay	-	416,643	-	416,643
Unreserved - reported in special revenue funds	(25,212)	-	-	(25,212)
<b>TOTAL FUND BALANCES</b>	<u>(25,212)</u>	<u>416,643</u>	<u>68,681</u>	<u>460,112</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 315,971</u>	<u>\$ 443,750</u>	<u>\$ 96,238</u>	<u>\$ 855,959</u>

**Ishpeming City School District**  
**Non-major Governmental Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2008**

	Special Revenue Funds	Capital Projects Funds	Debt Service Fund	Total
<b>REVENUES:</b>				
Local sources	\$ 179,749	\$ 184,471	\$ 340,179	\$ 704,399
State sources	15,675	-	-	15,675
Federal sources	144,067	-	-	144,067
<b>TOTAL REVENUES</b>	<b>339,491</b>	<b>184,471</b>	<b>340,179</b>	<b>864,141</b>
<b>EXPENDITURES:</b>				
Supporting services	505,506	-	-	505,506
Debt service:				
Principal	-	-	200,000	200,000
Interest and fiscal charges	-	-	177,703	177,703
Facilities acquisition	1,135	290,209	-	291,344
<b>TOTAL EXPENDITURES</b>	<b>506,641</b>	<b>290,209</b>	<b>377,703</b>	<b>1,174,553</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(167,150)</b>	<b>(105,738)</b>	<b>(37,524)</b>	<b>(310,412)</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	141,467	-	-	141,467
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>141,467</b>	<b>-</b>	<b>-</b>	<b>141,467</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(25,683)</b>	<b>(105,738)</b>	<b>(37,524)</b>	<b>(168,945)</b>
Fund Balance, July 1	471	522,381	106,205	629,057
<b>FUND BALANCE, JUNE 30</b>	<b>\$ (25,212)</b>	<b>\$ 416,643</b>	<b>\$ 68,681</b>	<b>\$ 460,112</b>

**Ishpeming City School District  
Non-major Special Revenue Funds  
Combining Balance Sheet  
June 30, 2008**

	School Lunch Fund	Athletic Fund	Total
<b>ASSETS:</b>			
Cash and equivalents	\$ 47,283	\$ 34,495	\$ 81,778
Accounts Receivable	-	4,044	4,044
Due from other funds	223,888	-	223,888
Due from other governmental units	1,717	-	1,717
Inventory - food and supplies	4,544	-	4,544
<b>TOTAL ASSETS</b>	<u>277,432</u>	<u>38,539</u>	<u>315,971</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Accounts payable	-	6,548	6,548
Due to other funds	307,644	26,991	334,635
<b>TOTAL LIABILITIES</b>	<u>307,644</u>	<u>33,539</u>	<u>341,183</u>
<b>FUND BALANCES:</b>			
Fund balance - unreserved	(30,212)	5,000	(25,212)
<b>TOTAL FUND BALANCES</b>	<u>(30,212)</u>	<u>5,000</u>	<u>(25,212)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 277,432</u>	<u>\$ 38,539</u>	<u>\$ 315,971</u>



**Ishpeming City School District**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2008**

	School Lunch Fund	Athletic Fund	Total
<b>REVENUES:</b>			
Local sources	\$ 109,355	\$ 70,394	\$ 179,749
State sources	15,675	-	15,675
Federal sources	144,067	-	144,067
<b>TOTAL REVENUES</b>	<u>269,097</u>	<u>70,394</u>	<u>339,491</u>
<b>EXPENDITURES:</b>			
Supporting services	293,645	211,861	505,506
Facilities acquisition	1,135	-	1,135
<b>TOTAL EXPENDITURES</b>	<u>294,780</u>	<u>211,861</u>	<u>506,641</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(25,683)	(141,467)	(167,150)
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in/(out)	-	141,467	141,467
<b>NET CHANGE IN FUND BALANCE</b>	(25,683)	-	(25,683)
Fund Balance, July 1	<u>(4,529)</u>	<u>5,000</u>	<u>471</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ (30,212)</u></u>	<u><u>\$ 5,000</u></u>	<u><u>\$ (25,212)</u></u>

**Ishpeming City School District  
School Lunch Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2008**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Local Sources:			
Sale of lunches	\$ 103,200	\$ 108,856	\$ 5,656
Income from investments	250	499	249
Total Local Sources	103,450	109,355	5,905
State Sources:			
State Aid	13,000	15,675	2,675
Total State Sources	13,000	15,675	2,675
Federal Sources:			
Grants restricted:			
Received through the State	126,655	126,666	11
U.S.D.A. Entitlement	18,260	17,401	(859)
Total Federal Sources	144,915	144,067	(848)
<b>TOTAL REVENUES</b>	261,365	269,097	7,732
<b>EXPENDITURES:</b>			
Support Services:			
School Lunch Activities:			
Salaries and wages	137,125	109,587	27,538
Employee benefits	350	27,532	(27,182)
Purchased services	1,150	1,062	88
Food costs	115,925	152,599	(36,674)
Supplies, materials, and other expenses	21,475	2,865	18,610
<b>Total Supporting Services</b>	276,025	293,645	(17,620)
Facilities Acquisition	-	1,135	(1,135)
<b>TOTAL EXPENDITURES</b>	276,025	294,780	(18,755)
<b>NET CHANGE IN FUND BALANCE</b>	(14,660)	(25,683)	(11,023)
Fund Balance, July 1	(4,529)	(4,529)	-
<b>FUND BALANCE, JUNE 30</b>	\$ (19,189)	\$ (30,212)	\$ (11,023)

**Ishpeming City School District  
Athletic Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2008**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Local Sources:			
Gate receipts and tournament activity	\$ 46,110	\$ 48,378	\$ 2,268
Participation fee	12,980	16,130	3,150
Income from investments	100	102	2
Other	8,380	5,784	(2,596)
Total Local Sources	67,570	70,394	2,824
<b>TOTAL REVENUES</b>	67,570	70,394	2,824
<b>EXPENDITURES:</b>			
Supporting Services:			
Athletic Activities:			
Salaries	141,650	127,477	14,173
Employee benefits	31,510	31,867	(357)
Purchased services	-	19,469	(19,469)
Supplies, materials and tournament activity	32,775	33,048	(273)
Total Supporting Services	205,935	211,861	(5,926)
Facilities Acquisition:		-	-
<b>TOTAL EXPENDITURES</b>	205,935	211,861	(5,926)
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	(138,365)	(141,467)	(3,102)
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in/(out)	138,365	141,467	3,102
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	138,365	141,467	3,102
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-
Fund Balance, July 1	5,000	5,000	-
<b>FUND BALANCE, JUNE 30</b>	\$ 5,000	\$ 5,000	\$ -

**Ishpeming City School District  
Non-major Capital Projects Funds  
Combining Balance Sheet  
June 30, 2008**

	Building Sinking Fund	Athletic Facilities Project Fund	Total
<b>ASSETS:</b>			
Cash and equivalents	\$ 343,933	\$ 78,223	\$ 422,156
Investments	18,022	-	18,022
Due from other funds	-	3,572	3,572
	<u>361,955</u>	<u>81,795</u>	<u>443,750</u>
<b>TOTAL ASSETS</b>	<u>361,955</u>	<u>81,795</u>	<u>443,750</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Due to other funds	27,107	-	27,107
	<u>27,107</u>	<u>-</u>	<u>27,107</u>
<b>TOTAL LIABILITIES</b>	<u>27,107</u>	<u>-</u>	<u>27,107</u>
<b>FUND BALANCES:</b>			
Fund balance - reserved	334,848	81,795	416,643
	<u>334,848</u>	<u>81,795</u>	<u>416,643</u>
<b>TOTAL FUND BALANCES</b>	<u>334,848</u>	<u>81,795</u>	<u>416,643</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 361,955</u>	<u>\$ 81,795</u>	<u>\$ 443,750</u>

**Ishpeming City School District  
Non-major Capital Projects Funds  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2008**

	Building Sinking Fund	Athletic Facilities Project Fund	Total
<b>REVENUES:</b>			
Local sources	\$ 181,238	\$ 3,233	\$ 184,471
<b>TOTAL REVENUES</b>	<u>181,238</u>	<u>3,233</u>	<u>184,471</u>
<b>EXPENDITURES:</b>			
Facilities Acquisition:			
Capital outlay	<u>11,909</u>	<u>278,300</u>	<u>290,209</u>
<b>TOTAL EXPENDITURES</b>	<u>11,909</u>	<u>278,300</u>	<u>290,209</u>
<b>NET CHANGE IN FUND BALANCE</b>	169,329	(275,067)	(105,738)
Fund Balance, July 1	<u>165,519</u>	<u>356,862</u>	<u>522,381</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ 334,848</u></u>	<u><u>\$ 81,795</u></u>	<u><u>\$ 416,643</u></u>

**Ishpeming City School District  
Non-major Capital Projects Fund  
Building Sinking Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2008**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Local Sources:			
Property taxes	\$ 163,600	\$ 173,768	\$ 10,168
Income from investments	5,000	7,470	2,470
<b>Total Local Sources</b>	<u>168,600</u>	<u>181,238</u>	<u>12,638</u>
<b>TOTAL REVENUES</b>	<u>168,600</u>	<u>181,238</u>	<u>12,638</u>
<b>EXPENDITURES:</b>			
Facilities Acquisition:			
Capital outlay	<u>-</u>	<u>11,909</u>	<u>(11,909)</u>
<b>Total Facilities Acquisition</b>	<u>-</u>	<u>11,909</u>	<u>(11,909)</u>
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>11,909</u>	<u>(11,909)</u>
<b>NET CHANGE IN FUND BALANCE</b>	168,600	169,329	729
Fund Balance, July 1	<u>165,519</u>	<u>165,519</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ 334,119</u></u>	<u><u>\$ 334,848</u></u>	<u><u>\$ 729</u></u>

**Ishpeming City School District  
Non-major Capital Projects Fund  
Athletic Facilities Project Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2008**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Local Sources:			
Income from investments	<u>\$3,500</u>	<u>\$3,233</u>	<u>(267)</u>
<b>Total Local Sources</b>	<u>3,500</u>	<u>3,233</u>	<u>(267)</u>
<b>TOTAL REVENUES</b>	<u>3,500</u>	<u>3,233</u>	<u>(267)</u>
<b>EXPENDITURES:</b>			
Facilities Acquisition:			
Capital outlay	<u>404,100</u>	<u>278,300</u>	<u>125,800</u>
<b>Total Facilities Acquisition</b>	<u>404,100</u>	<u>278,300</u>	<u>125,800</u>
<b>TOTAL EXPENDITURES</b>	<u>404,100</u>	<u>278,300</u>	<u>125,800</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(400,600)</u>	<u>(275,067)</u>	<u>125,533</u>
Fund Balance, July 1	<u>356,862</u>	<u>356,862</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ (43,738)</u></u>	<u><u>\$ 81,795</u></u>	<u><u>\$ 125,533</u></u>

**Ishpeming City School District  
Non-major Debt Service Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2008**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Local Sources:			
Property taxes	\$ 354,928	\$ 331,864	\$ (23,064)
Income from investments	9,500	8,315	(1,185)
<b>Total Local Sources</b>	364,428	340,179	(24,249)
<b>TOTAL REVENUES</b>	364,428	340,179	(24,249)
<b>EXPENDITURES:</b>			
Debt Service:			
Principal payments	200,000	200,000	-
Interest and fiscal charges	177,712	177,703	9
<b>Total Debt Service</b>	377,712	377,703	9
<b>TOTAL EXPENDITURES</b>	377,712	377,703	9
<b>NET CHANGE IN FUND BALANCE</b>	(13,284)	(37,524)	(24,240)
Fund Balance, July 1	106,205	106,205	-
<b>FUND BALANCE, JUNE 30</b>	\$ 92,921	\$ 68,681	\$ (24,240)



## COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education  
Ishpeming City School District  
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District as of and for the year ended June 30, 2008, which collectively comprise the Ishpeming City School District's basic financial statements and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ishpeming City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Ishpeming City School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ishpeming City School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Ishpeming City School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Ishpeming City School District's financial statements that is more than inconsequential will not be prevented or detected by the Ishpeming City School District's internal control. We consider the deficiencies described in a separate letter to management (items 08-01 through 08-05) dated October 20, 2008 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Ishpeming City School District's internal control.

Board of Education  
Ishpeming City School District  
Ishpeming, Michigan 49849

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ishpeming City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in a separate letter to management (items 08-06 and 08-07) dated October 20, 2008.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Jackman & Company, PLLC*  
Certified Public Accountants

October 20, 2008



ANDERSON, TACKMAN & COMPANY, P.L.C.

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MILWAUKEE

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Ishpeming City School District  
Ishpeming, MI 49849

Compliance

We have audited the compliance of Ishpeming City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Ishpeming City School District' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Ishpeming City School District' management. Our responsibility is to express an opinion on Ishpeming City School District' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ishpeming City School District' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ishpeming City School District' compliance with those requirements.

In our opinion, Ishpeming City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Ishpeming City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Ishpeming City School District' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ishpeming City School District's internal control over compliance.

Board of Education  
Ishpeming City School District

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, others within the entity, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

October 20, 2008

ISHPEMING CITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue 07/01/07	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 06/30/08	
U.S. DEPARTMENT OF AGRICULTURE:								
Passed Through M.D.E.:								
Food Distribution:								
Bonus Commodities	10.550	\$ -	\$ 198	\$ -	\$ -	\$ -	\$ -	
Entitlement Commodities	10.550	17,401	9,983	-	17,401	17,401	-	
TOTAL FOOD DISTRIBUTION		17,401	10,181	-	17,401	17,401	-	
Nutrition Cluster:								
National School Breakfast Program	10.553	21,327	19,508	-	21,327	21,327	-	
National School Lunch Program:								
Section 4 - All Lunches	10.555	18,746	18,062	-	18,746	18,746	-	
Section 11 - Free & Reduced Lunches	10.555	86,594	85,775	-	86,594	86,594	-	
Total National School Lunch Program		105,340	103,837	-	105,340	105,340	-	
TOTAL NUTRITION CLUSTER		126,667	123,345	-	126,667	126,667	-	
TOTAL PASSED THROUGH M.D.E.		144,068	133,526	-	144,068	144,068	-	
TOTAL U.S. DEPARTMENT OF AGRICULTURE		144,068	133,526	-	144,068	144,068	-	
U.S. DEPARTMENT OF EDUCATION:								
Direct Award:								
Indian Education	B060A042232	84.060	10,131	9,319	-	7,150	7,150	-
TOTAL DIRECT AWARD			10,131	9,319	-	7,150	7,150	-
Passed through Michigan Department of Education (M.D.E.):								
E.C.I.A. Title I	81530-0708	84.010	244,417	-	-	244,417	113,600	130,817
E.C.I.A. Title I	71530-0607	84.010	218,262	200,273	5,273	16,224	21,497	-
			462,679	200,273	5,273	260,641	135,097	130,817
Title V LEA Allocation	080250-0708	84.298	877	-	-	877	100	777
Title V LEA Allocation	070250-0607	84.298	912	912	-	-	-	-
			1,789	912	-	877	100	777
Technology Literacy								
	084290-0708	84.318	2,281	-	-	2,281	100	2,181
	074290-0607	84.318	2,226	1,200	-	1,026	1,026	-
			4,507	1,200	-	3,307	1,126	2,181
Improving Teacher Quality								
	080520-0708	84.367	67,318	-	-	67,318	20,372	46,946
	070520-0607	84.367	66,974	56,974	-	10,000	10,000	-
			134,292	56,974	-	77,318	30,372	46,946
TOTAL PASSED THROUGH M.D.E.			603,267	259,359	5,273	342,143	166,695	180,721

ISHPERING CITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue 07/01/07	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 06/30/08
Passed Through Marquette-Alger Regional Educational Service Agency (MARESA): Flow Through							
060450-0506	84.027	\$ 22,332	\$ -	\$ -	\$ 22,332	\$ 20,448	\$ 1,884
070450-0607	84.027	47,993	47,358	-	-	-	-
		<u>70,325</u>	<u>47,358</u>	<u>-</u>	<u>22,332</u>	<u>20,448</u>	<u>1,884</u>
Perkins							
083520/8012-02	84.048	5,536	-	-	5,536	-	5,536
		<u>5,536</u>	<u>-</u>	<u>-</u>	<u>5,536</u>	<u>-</u>	<u>5,536</u>
Learn & Serve							
MCSC/SBLS/F-151/08	94.004	441	-	-	441	166	275
		<u>441</u>	<u>-</u>	<u>-</u>	<u>441</u>	<u>166</u>	<u>275</u>
State Improvement							
070620/03001	84.323	273	-	-	273	-	273
		<u>273</u>	<u>-</u>	<u>-</u>	<u>273</u>	<u>-</u>	<u>273</u>
Safe & Drug Free Schools & Communities							
082860-0708	84.186	2,094	1,978	-	2,094	-	2,094
Title II-D Ed Tech							
074240/2-1	84.318	137	68	-	137	137	-
TOTAL PASSED THROUGH MARESA		<u>78,806</u>	<u>49,404</u>	<u>-</u>	<u>30,813</u>	<u>20,751</u>	<u>10,062</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>692,204</u>	<u>318,082</u>	<u>5,273</u>	<u>380,106</u>	<u>194,596</u>	<u>190,783</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES: Passed Through Marquette-Alger Regional Educational Service Agency (MARESA): LEA Medicaid Fee for Service - Transportation	93.778	5,021	1,632	-	5,021	5,021	-
TOTAL U.S. DEPT OF HEALTH & HUMAN SERVICES		<u>5,021</u>	<u>1,632</u>	<u>-</u>	<u>5,021</u>	<u>5,021</u>	<u>-</u>
GRAND TOTAL		<u>\$ 841,293</u>	<u>\$ 453,240</u>	<u>\$ 5,273</u>	<u>\$ 529,195</u>	<u>\$ 343,685</u>	<u>\$ 190,783</u>

ISHPERING CITY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2008

**NOTE A – OVERSIGHT AGENCY:**

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the School District's federal awards.

**NOTE B – BASIS OF ACCOUNTING:**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**NOTE C – FINAL COST REPORT - FORM DS4044:**

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

**NOTE D – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION:**

The amounts reported as current payments on the Grant Auditor Report, reconcile with the Schedule of Expenditures of Federal Awards as follows:

Current payments per Grant Auditor Report		\$175,615
Add - payments not on Grant Auditor Report:		
Payments on R7120	\$110,405	
Accrued receivable	16,261	
Direct programs	7,150	
Passed through other Districts/Others	35,834	
Bonus and entitlement commodities	17,401	187,051
Less – 2005 Payments erroneous included on Grant Auditor Report	(8,920)	
Less – deferred revenue at the beginning of year – MDE	(5,273)	
Add – deferred revenue at the end of year – MDE	180,721	166,528
Add – rounding	1	1
PER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS		\$529,195

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue is as follows:

Total Federal Revenue Sources Reported in the Financial Statements	\$529,194
Add:	
Rounding	1
TOTAL FEDERAL AWARDS EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	\$529,195



ISHPERING CITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Ishpeming City School District.
2. There were significant deficiencies disclosed during the audit of the financial statements as listed in Section B below.
3. There were instances of noncompliance material to the financial statements of Ishpeming City School District disclosed during the audit as listed in Section B below.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Ishpeming City School District expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Ishpeming City School District were disclosed during the audit.
7. The programs tested as major programs were:

Program	CFDA #
Title I	84.010
Flow through	84.027

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Ishpeming City School District was determined to be a high-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

**08-01 – FINANCIAL REPORTING CYCLE**

**Condition/Criteria:** The monthly and year end financial reporting package as presented to the Board of Education is not fully compliant with the generally accepted accounting principles of reporting. Although the package contains an informative summation of the various Funds revenues and expenditures on both actual and budget basis and balance sheets, the financial statements lack any significant monthly and year end cut-off adjusting entries.

**Effect:** The monthly and year end financial reporting package as presented to the Board of Education is not fully compliant with the generally accepted accounting principles of reporting.

**Cause of Condition:** The financial statements lack any significant monthly and year end cut-off adjusting entries. The financial statements are prepared before the major accounts are reconciled.

**Recommendation:** We suggest significant monthly and year end cut-off adjusting entries be incorporated into the financial statements in order to present a cleared picture of the various funds of the District. The Board of Education should document this review of the financial affairs in the minutes of the meeting as well as other financial events.

## **08-02 – INTERNAL CONTROL RECONCILIATION FUNCTION**

**Condition/Criteria:** In any system of internal accounting control one of the main ingredients is a strong reconciliation function. The general ledger contains the accounts and records which are the basis for the preparation of interim financial statements and for them to be free of a material error or irregularity, the necessity for timely reconciliations cannot be overemphasized. The accounts which are most significant in the accounting system that need to be reconciled on a timely basis are:

- Cash accounts
- Accounts receivable
- Accounts payable
- Health insurance payable
- Interfund activity
- Investment activity
- Debt transaction activity
- Federal program revenues

**Effect:** During the course of our audit subsequent to the Districts closing, we made nine (9) adjustments, some of a significant amount to correct the accounting records and also noticed many of the accounts contained unreconciled differences.

**Cause of Condition:** Timely reconciliations of the significant accounts are not performed.

**Recommendation:** We have suggested and good internal control dictates the general ledger accounts be reconciled on a monthly basis and any adjustments to be made be processed timely.

## **08-03 – SEGREGATION OF DUTIES**

**Condition/Criteria:** The accounting staff of the Ishpeming School District #1 is made up of two individuals, which does not allow for segregation of duties. Because of the limited staff, there is an increased chance that misstatements in financial statements would not be prevented or detected on a timely basis.

**Effect:** The lack of segregation of duties increases the chance that misstatements, whether caused by error or fraud, could occur and not be prevented or detected on a timely basis by employees in the course of performing their assigned duties.

**Cause of Condition:** The size of the organization's accounting staff, at times, precludes certain internal design controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

**Recommendation:** Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

We suggest the management periodically reviews the work performed by the employees and the Board of Education closely monitor and review the financial statements and transactions on a monthly basis.

## **08-04 – ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES**

**Condition/Criteria:** Statement on Auditing Standards #112 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

**Effect:** We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with GAAP.

**Cause of Condition:** The staff of the district does not have adequate time to prepare all the information included in the annual financial statements. Therefore, we assisted in the preparing the financial statements and related footnotes.

**Recommendation:** We do not recommend any changes to this situation at this time and communicate this as

required by professional standards.

#### **08-05 – CHECK SIGNING POLICY**

**Condition/Criteria:** The School District has developed a practice of using system signatures on all checks drawn on the principal bank accounts. It is generally true that checks requiring manual signatures are subject to more careful scrutiny and thereby cash is controlled more closely.

During the course of the audit, we noted that checks from student activities and athletic fund are missing supporting documentation and are sometimes written out to "Cash."

**Effect:** Checks are written and disbursed without appropriate review and approval.

**Cause of Condition:** Checks are signed using system signatures and signature stamps without appropriate review and approval.

**Recommendation:**

We recommend that manual signatures be used on all checks other than those disbursed from a bank account operated on an imprest basis. Disbursements for payrolls are the type best suited for the use of facsimile signatures.

We also recommend that signature stamps are kept at a secure location, such as the Organization's vault.

We recommend the School District implements increased internal control procedures over the cash disbursements and discontinues its practice of making checks payable to "Cash." We suggest that consideration be given to requiring dual signatures on check disbursements and requiring supporting documentation for all disbursements.

#### **INSTANCE OF NON-COMPLIANCE**

#### **08-06 – FUND BALANCE DEFICIT**

**Condition/Criteria:** At June 30, 2008, the General Fund had a reserved fund balance of \$121,364 and an unreserved fund deficit of \$708,416. The School Lunch Fund had an unreserved fund balance deficit of \$30,212.

**Effect:** Section 102(1) of the State School Aid Act prohibits a district from incurring an operating deficit during a fiscal year. A district is considered to have "a deficit fund balance if (1) its General Fund balance before reserves is negative, or (2) other funds have negative balances that are greater than the General Fund balance before reserves". The School District has a General Fund unreserved fund deficit, that currently meets the definition of a deficit fund balance.

**Cause of Condition:** The School district has suffered from declining enrollment and a related decrease in the state revenues as well as budgetary overruns. Due to the significant deficiencies in interim financial reporting, management and the Board did not receive accurate financial reports and inadvertently failed to address the significant decreases in the fund balances.

**Recommendation:** Care should be taken to monitor the fund more closely in future years to ensure there are sufficient revenues to cover expenses.

#### **08-07 – UNIFORM BUDGETING AND ACCOUNTING ACT (PA 621)**

**Condition/Criteria:** Public Act 621 of 1978, Section 18(1) as amended, provides that a government unit shall not incur expenditures in excess of the amount appropriated. The Michigan Department of Education ("Department") evaluates violations with the Uniform Budgeting and Accounting Act (PA 621) at the total expenditure level and total other financing sources (uses) level, rather than at the line item level for General

Fund only. The Department established a one percent threshold for each total. As enumerated upon in Footnote O of the financial statements, Ishpeming City School District was found to be in violation of the Department's interpretation of PA 621.

**Effect:** The Ishpeming City School District is not in compliance with State Law.

**Cause of Condition:** Failure to amend the budgets during the year based on the level of expenditures. Adopting budgets where the inter-fund transfers are not balanced.

**Recommendation:** The Ishpeming City School District should strictly control expenditures in the General Fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly, including the transfers out amounts.

#### **08-08 – OFFICIALS PAY**

**Condition/Criteria:** We noted during our testing that referees participating in school district events are being paid as independent contractors, however, there does not exist a reliable record-keeping system to accurately report all income as required by the Internal Revenue Service for all third-party payments. The school district was not sure if all required forms 1099 were issued for payment made for services as required by Internal Revenue Code section 6041 during the Internal Revenue Service compliance audit.

**Effect:** The tax law requires third-party payers, such as a school district, to report to the Internal Revenue Service payments made to service providers. This includes fees paid to non-employees, including travel reimbursements for which the persons did not account to the payer, if the fee and reimbursement total at least \$600. By not maintaining a reliable record-keeping system for accurately reporting applicable payments to referees, the school district is not in compliance with tax laws.

**Cause of Condition:** Referees are often paid at the time of the event and records cited who was paid for what event and when it occurred are not consistently forwarded to the Business Office for recording.

**Recommendation:** We recommend instilling a reliable record-keeping system for accurately reporting applicable payments to referees to the Internal Revenue Service.

#### **MANAGEMENT RESPONSE – CORRECTIVE ACTION PLAN:**

- Contact Person(s) Responsible for Correction:
  - Dr. Stephen Piereson, Superintendent
  - Anthony Bertucci, Business Manager
- Corrective Action Planned:
  - The Ishpeming City School District #1 will review the proposed deficiencies and decide the proper course of action, depending on budgetary resources.
- Anticipated Completion Date:
  - December 31, 2008

#### **C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT**

NONE

ISHPEMING CITY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the year June 30, 2008

There were no findings and questioned costs for  
major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

MICHIGAN  
ESCANABA  
IRON MOUNTAIN  
KINROSS  
MARQUETTE

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

WISCONSIN  
GREEN BAY  
MILWAUKEE

***Ishpeming City School District***  
***Report to Management Letter***  
***For the Year Ended June 30, 2008***

To the Board of Education  
Ishpeming City School District  
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ishpeming City School District, Ishpeming, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Ishpeming City School District's internal control over financial reporting (internal control) as a basis for designing out auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

**08-01 – FINANCIAL REPORTING CYCLE**

**Condition/Criteria:** The monthly and year end financial reporting package as presented to the Board of Education is not fully compliant with the generally accepted accounting principles of reporting. Although the package contains an informative summation of the various Funds revenues and expenditures on both actual and budget basis and balance sheets, the financial statements lack any significant monthly and year end cut-off adjusting entries.

**Effect:** The monthly and year end financial reporting package as presented to the Board of Education is not fully compliant with the generally accepted accounting principles of reporting.

**Cause of Condition:** The financial statements lack any significant monthly and year end cut-off adjusting entries. The financial statements are prepared before the major accounts are reconciled.

**Recommendation:** We suggest significant monthly and year end cut-off adjusting entries be incorporated into the financial statements in order to present a cleared picture of the various funds of the District. The Board of Education should document this review of the financial affairs in the minutes of the meeting as well as other financial events.

#### **08-02 – INTERNAL CONTROL RECONCILIATION FUNCTION**

**Condition/Criteria:** In any system of internal accounting control one of the main ingredients is a strong reconciliation function. The general ledger contains the accounts and records which are the basis for the preparation of interim financial statements and for them to be free of a material error or irregularity, the necessity for timely reconciliations cannot be overemphasized. The accounts which are most significant in the accounting system that need to be reconciled on a timely basis are:

- Cash accounts
- Accounts receivable
- Accounts payable
- Health insurance payable
- Interfund activity
- Investment activity
- Debt transaction activity
- Federal program revenues

**Effect:** During the course of our audit subsequent to the Districts closing, we made nine (9) adjustments, some of a significant amount to correct the accounting records and also noticed many of the accounts contained unreconciled differences.

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Board of Education  
Ishpeming City School District  
Ishpeming, Michigan 49849

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**Recommendation:** We recommend instilling a reliable record-keeping system for accurately reporting applicable payments to referees to the Internal Revenue Service.

\* \* \* \* \*

This report is intended solely for the information and use of the Ishpeming City School District's board, management, and any other legislative or regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening internal controls. We appreciate the cooperation and courtesy extended to us by the District's staff during our audit and would be pleased to discuss our recommendations with you further at your convenience.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

October 20, 2008